

## Message Text

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INRE-00 IGA-02 AGR-20 /200 W  
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O P 020400 Z APR 73

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 9242

AMEMBASSY ISLAMABAD IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 3 DACCA 1397

E. O. 11652: GDS

TAGS: EFIN PK BG IBRD

SUBJ: BANGLADESH/ PAKISTAN DEBT

SUMMARY: DURING RESTRICTED MEETING ON MARCH 31 WITH THE CREDITORS, BDG MINISTERIAL COMMITTEE ON DEBT OPPOSED ACCEPTANCE RECOGNITION OF DEBT NOW BUT DID NOT REJECT ULTIMATE ACCEPTANCE. IN SUBSEQUENT CREDITORS MEETING, ALMOST ALL CREDITORS AGREED TO PLEDGE ECONOMIC ( AS DISTINCT FROM HUMANITARIAN) ASSISTANCE CONDITIONALLY ON RESOLUTION OF DEBT PROBLEM IN SPITE OF BDG' S REQUEST THERE BE NO CONDITIONAL PLEDGING.

1. HEADS OF DELEGATIONS MEETING: ( A) AFTER REGULAR SESSION MARCH 31 TO DISCUSS DIVISION OF DEBT ISSUE WITH BDG COMMITTEE, CONSISTING OF MINISTERS OF FINANCE AND FOREIGN AFFAIRS AND DEPUTY CHAIRMAN, PLANNING COMMISSION, DESIGNATED AS RESPONSIBLE TO PRIME MINISTER FOR THIS QUESTION.

2. CARGILL INTRODUCED SUBJECT AND ASKED EACH DELEGATE TO PRESENT VIEWS. UK LED OFF WITH THE ESSENTIAL THEMES:

A. WISH BDG TO ACCEPT IN PRINCIPLE A SHARE OF PAKISTAN DEBT AND THEN WORK OUT THE PRECISE DIVISION.

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B. DEBT PROBLEM WAS COMPLETELY INDEPENDENT OF OTHER PROBLEMS BETWEEN THE TWO COUNTRIES IN WHICH WE HAD NO

DESIRE TO INTERFERE.

C. CREDITORS' AIM NOT TO OBTAIN MONEY BUT TO REGULARIZE SITUATION AS MATTER OF GENERAL POLICY REQUIRED BY NATIONAL LEGISLATING WHENEVER NEW AID WAS BEING GIVEN.

D. ONCE SETTLEMENT MADE, GENEROUS RESCHEDULING WOULD BE AGREED TO.

E. U. S. AND OTHER DELEGATIONS SPOKE IN TURN FULLY SUPPORTING THESE VIEWS.

3. FOREIGN MINISTER RESPONDED BY STATING THAT IN THE INTEREST OF ITS LONG- TERM DEVELOPMENT, BANGLADESH WAS INTERESTED IN ESTABLISHMENT OF MUTUAL CONFIDENCE AND THEN LAUNCHED INTO SEVERAL, NOT NECESSARILY RELATED, LEGAL ARGUMENTS:

A. ORIGIN OF PROBLEM WAS PAKISTAN' S REFUSAL TO SERVICE CERTAIN CREDITS -- ISSUE WAS THEREFORE ONE BETWEEN PAKISTAN AND THE CREDITORS AT THIS POINT.

B. PAKISTAN HAD TO TAKE FIRST STEPS WHICH COULD START THE PROCESS TO A SETTLEMENT, I. E., RECOGNITION OF BDG, ALTHOUGH NOT EXPLICITLY STATED. UNTIL THAT TIME, PROBLEM DOES NOT CONCERN BD BUT ONLY PAKISTAN.

C. WHY SHOULD BANGLADESH SHARE LIABILITIES WHEN IT WAS NOT GIVEN AN OPPORTUNITY TO SHARE ASSETS, I. E., GOLD RESERVES, IMF AND IBRD QUOTAS, ETC.

D. WHAT WAS LEGAL BASIS FOR CREDITORS' ACCEPTANCE PAKISTAN POSITION?

4. CARGILL AND UK DEL REITERATED THAT DONOR COUNTRIES DO NOT WISH TO BE INVOLVED IN A WHOLE RANGE OF GOP- BDG PROBLEMS. IT HAD BEEN RECOGNIZED THAT DEBT RELIEF AGREEMENT WITH PAKISTAN WAS A PROVISIONAL ONE TO BE FOLLOWED BY A FINAL DIVISION OF DEBT. IT HAD BEEN THE HOPE THAT MORE PROGRESS WOULD HAVE BEEN MADE ON RESOLUTION THIS PROBLEM BY NOW. FRENCH DELEGATE ( NEBOT) ANSWERED QUESTION OF LEGAL BASIS FOR DIVISION BY SAYING THERE WAS NO LAW IN THIS AREA BUT THERE WAS HISTORY OF THE BREAKUP OF OTHER COUNTRIES -- AUSTRIA, TURKEY, ETC., WHERE PRECEDENT CLEARLY ESTABLISHED THAT THE COUNTRY THAT POSSESSES THE ASSET SHOULD AACEPT OBLIGATION OF PAYING CREDIT THAT GENERATED IT. CARGILL POINTED OUT THAT CONDITIONS POSED BY BANGLADESH, I. E., PAKISTAN RECOGNITION, MIGHT DELAY SOLUTION A LONG TIME.  
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5. AS DISCUSSION WARMED UP, UK POINTED OUT THAT SOME RESOLUTION MUST BE FOUND BEFORE IT AFFECTED FLOW OF NEW AID. FOREIGN MINISTER REPEATED HIS ARGUMENT STRESSING THAT BDG WOULD STAND BY ANY CONTRACTS THAT IT HAD UNDERTAKEN SINCE INDEPENDENCE. MINISTER OF FINANCE TOOK OVER BDG SIDE FOR ANOTHER ROUND OF THE SAME BUT THEN SOFTENED POSITION SLIGHTLY BY STATING THAT IF PAKISTAN DID NOT FULFILL ITS OBLIGATIONS, BANGLADESH WOULD ASSUME A RIGHTFUL SHARE AT SOME UNSPECIFIED FUTURE TIME, BUT WOULD EXPECT DONORS COMPENSATE BY PROVISION

ADDITIONAL ASSISTANCE. ON THIS NOTE THE MEETING ENDED.

6. AT DINNER GERMAN DELEGATE ( KLAMSER) TOLD MACDONALD THAT MINISTER OF FINANCE HAD SAID TO HIM THAT RESOLUTION OF DEBT ISSUE MIGHT EVEN TAKE PLACE DURING MEETING. MACDONALD IN FOLLOWING UP WITH MINISTER OF FINANCE, WAS TOLD THAT LATTER SAW POSSIBLE ELEMENTS OF AN AGREEMENT. BDG HAD

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O P 020400 Z APR 73

FM AMEMBASSY DACCA

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AMEMBASSY ISLAMABAD IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 DACCA 1397

ALREADY TAKEN RESPONSIBILITY FOR DEBTS RELATED TO UNCOMPLETED PROJECTS AND WOULD PROBABLY ACCEPT ALL PROJECT- RELATED DEBT. SERVICING DEBTS DUE COMMODITY AID WOULD PROBABLY FOLLOW TOO BUT RECIPIENT MUCH MORE DIFFICULT ASCERTAIN THAN PROJECT AID BECAUSE TRANSSHIPMENTS OF AID GOODS FROM EAST TO WEST AND VICE- VERSA( SIC) HAD TO BE CHECKED AND PAKISTAN HAD ALL RECORDS. HE AVOIDED ANY CONCLUSION AS TO WHAT WOULD BE DONE NOW.

7. HEADS OF DELEGATIONS RECONVENED WITH CARGILL AFTER DINNER TO PLAN TACTICS FOR FOLLOWING DAY. DISCUSSION REVOLVED AROUND SEVERAL TOPICS:

- A. BDG MOTIVATION AND GROUP BARGAINING POWER.
- B. WHAT WOULD BE CREDITORS' RESPONSE TO A DEFAULT.
- C. HOW MIGHT CARROTS AND STICKS BE APPLIED.

8. WITH RESPECT TO BDG MOTIVATIONS, UK THOUGHT ISSUE WAS USE OF DEBT PROBLEM AS WEAPON IN STRUGGLE FOR RECOGNITION AND THAT BDG PREPARED TO PAY PRICE IN AID. FRANCE THOUGHT THAT SINCE RESCHEDULED SERVICE WOULD BE RELATIVELY SMALL COMPARED TO MAGNITUDE PROSPECTIVE AID, WE HAD, AS A

GROUP A GOOD DEAL OF LEVERAGE. CANAD REPORTED CONVERSATION WITH NURUL ISLAM TO EFFECT THAT DEBT WAS NOT " GUT ISSUE" FOR CONFIDENTIAL

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CONSORTIUM. GERMANY THOUGHT THAT BDG HAD NOT HAD ENOUGH TIME TO CONSIDER QUESTION.

9. SOME DISCUSSION ALSO DEVOTED TO CREDITORS' REACTION TO DEFAULT. SOME SUGGESTED THAT BDG COUNTING ON CREDITORS' HOLDING PAKISTAN RESPONSIBLE. FRANCE SAID IT WOULD NOT HOLD PAKISTAN RESPONSIBLE FOR DEBTS IT CONSIDERED BELONGED TO BANGLADESH AND URGED OTHERS TO TAKE SAME POSITION. CARGILL SAID IN BANK CASE, WHERE ALL CREDITS WERE PROJECT TYPE, HE DID NOT SEE HOW PAKISTAN COULD BE HELD RESPONSIBLE INDEFINITELY FOR DEBTS RELATED TO PROJECTS NOW LOCATED IN BANGLADESH.

10. U. S. AND FRANCE STRESSED CARROT AND STICK APPROACH THROUGH CONDITIONAL PLEDGING. U. S. AND CANADA SUGGESTED THAT CREDITORS PROPOSE A SECOND MEETING ON DEBT AT THE SAME TIME TO START ON NEGOTIATING PROCESS AND BE SYMMETRICAL WITH PAKISTAN ARRANGEMENT. THIS WAS AGREED AND CARGILL AUTHORIZED TO PRESENT CONCLUSIONS TO BDG.

11. ANOTHER HEADS DEL MEETING HELD NOON APRIL 1 FOLLOWING OPEN MORNING SESSION FOR LAST MINUTE CONSULTATION ON CORPORATE TACTICS FOR PLEDGING SESSION LATER IN DAY. CARGILL REPORTED NURUL ISLAM ASKED THAT DELEGATIONS AUTHORIZED ONLY TO MAKE CONDITIONAL PLEDGES MAKE NO PLEDGES AT ALL. EXCEPTING SWEDEN AND NETHERLANDS, CONSENSUS WAS THAT IT IMPORTANT MEMBERS MAKE CONDITIONAL PLEDGES EVEN IF THIS REQUIRED TAKING INITIATIVE TO DO SO IN ORDER ( A ) AVOID SEEMING TO RETREAT FROM GENERAL POSTURE STRUCK IN OPENING SESSION MARCH 31, ( B ) TO JOIN ISSUE SOMEWHAT MORE EXPLICITLY BY MAKING SPECIFIC RECORD, ( C ) PROCEED EVEN- HANDEDLY VIS A VIS GOP AND ( D ) TO DISPLAY MAGNITUDE AID AVAILABILITIES INVOLVED. AT CONCLUSION, NETHERLANDS CLOSED RANKS WITH MAJORITY.

12. EXPLICIT DISCUSSION DEBT ISSUE TOOK PLACE DURING BALANCE OF PAYMENTS DISCUSSION AFTERNOON APRIL 1 WHICH CHAIRMAN ISLAM OPENED WITH REQUEST THAT CONDITIONAL PLEDGES NOT REPEAT NOT BE MADE. HOWEVER ALL CONSORTIUM DELS EXCEPT ITALY, SWEDEN AND NORWAY INCLUDED IN THEIR SUBSTANTIVE STATEMENTS A PLEDGE EXPLICITLY CONDITIONED ON A SATISFACTORY RESOLUTION TO THE DEBT PROBLEM. U. S. LED WITH MODERATE, BUT CLEAR STATEMENT AS TO CONDITIONALITY. PARTICULARLY STRONG STATEMENTS WERE MADE BY U. K., GERMANY, FRANCE AND STRONGEST BY CANADA. JAPAN  
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AND MOST OTHERS SUBSCRIBED BY REFERENCE TO FOREGOING STATEMENTS. FOLLOWING THE BALANCE OF PAYMENTS DISCUSSION CUM CONDITIONAL PLEDGES, ISLAM DECLARED CONDITIONAL PLEDGES AND REFERENCES TO REASON THEREFORE EXPUNGED FROM THE RECORD AS OUTSIDE SCOPE OF AGENDA THIS CONFERENCE.

13. DEBT QUESTION ALSO CAME UP FINAL TIME DURING REVIEW OF BDG RPT BDG PRESS RELEASE DRAFT. REFERENCE WAS LARGELY BY INDIRECTION AND CENTERED ON WHETHER AND, IF SO, HOW TO REFER TO POSSIBLE SUBSEQUENT MEETING. VARIETY OF FORMULATIONS BY US, CANADA, FRANCE, AND UK WERE PROPOSED BUT FOUND UNACCEPTABLE TO BDG. FINALLY, A NEUTRAL AND NON- COMMITTAL LAST SENTENCE WAS AGREED ON BY ALL. LAST PARA OF RELEASE READS: - ON THE SECOND DAY OF THE MEETING SPECIFIC DISCUSSIONS TOOK PLACE ON THREE IMPORTANT TOPICS -- THE FOOD SITUATION AND AGRICULTURAL DEVELOPMENT PROBLEMS, TECHNICAL ASSISTANCE FOR PROJECT IDENTIFICATION/ PREPARATION, AND THE BALANCE OF PAYMENTS SITUATION. IN THIS CONNECTION THE NEED FOR FOOD ASSISTANCE WAS DISCUSSED AND PLEDGES FOR FOOD ASSISTANCE WERE MADE BY SOME DELEGATIONS. THE NEED FOR A SUBSTANTIAL FLOW OF RESOURCES INTO THE COUNTRY IN 1973/74 FOR DEVELOPMENT WAS ALSO FULLY RECOGNIZED BY THE DELEGATES. ALL THE DELEGATED THANKED THE GOVERNMENT OF THE

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FM AMEMBASSY DACCA

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AMEMBASSY ISLAMABAD IMMEDIATE

C O N F I D E N T I A L SECTION 3 OF 3 DACCA 1397

PEOPLE'S REPUBLIC OF BANGLADESH FOR HAVING SPONSORED THE CONFERENCE AND EXPRESSED THEIR APPRECIATION AT THE USEFUL DISCUSSIONS WHICH THE CONFERENCE AFFORDED. IT WAS FELT THAT A FURTHER EXCHANGE OF VIEWS IN DUE COURSE WOULD BE VALUABLE".

14. FOR ISLAMABAD. ILL LUCK WOULD BE THE RESULT IF GOP WERE TO GO PUBLIC ON STATE OF PLAY REPORTED ABOVE. GOP SHOULD BE INFORMED THAT: ( A) USG LIVED UP TO EXPLICIT PARIS UNDERTAKING THAT REALITIES OF DEBT SITUATION WOULD BE CONVEYED TO BDG FORTHRIGHTLY; ( B) ALL CONSORTIUM MEMBERS EXCEPT UNINSTRUCTED ITALY DID SO AS WELL; AND ( C) USG AND ALL CONSORTIUM AGAIN, EXCEPTING ITALY WHICH DID NOT PLEDGE, MADE PLEDGES CONDITIONAL ON SATISFACTORY RESOLUTION OF DEBT PROBLEM. HUMANITARIAN ASSISTANCE, PRIMARILY FOOD AID, WAS EXCLUDED FROM ABOVE CONDITIONING AS WE ADVISED GOP IN PARIS. US DELEGATION, KNOWING THAT BDG MAY BE USING ITS PUBLIC AS NEGOTIATING COUNTER, BUT JUDGES THAT, IN FACT, BDG HAS POLITICAL PROBLEMS WHICH WOULD BE EXACERBATED BY PREMATURE OR SLANTED PUBLIC DEBATE. THUS, GOP SHOULD BE COUNSELLED, AT WHATEVER LEVELS YOU BELIEVE APPROPRIATE, ON THIS POINT AND THE POSSIBLE IMPLICATIONS TO ALL INVOLVED INCLUDING GOP IN THIS EXCEEDINGLY COMPLEX EQUATION. SITUATION IS STILL UNSTABLE; BOTH LEGALITIES AND OUTCOME REMAIN UNCERTAIN.  
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SUGGEST ANY DISCUSSIONS WITH GOP SHOULD START AND END WITH REFERENCE TO USG POSITION AND THAT OF THE CONSORTIUM MEMBERS AS EXPRESSED AT PARIS MEETING MARCH 22-23 THAT PAKISTAN RETAINS LIABILITY FOR ALL PAST DEBT INCURRED.

15. MARSHALL CASSE, MEMBER U. S. DEL TO BOTH PARIS AND DACCA MEETINGS TRANSITING ISLAMABAD APRIL 3-4. YOU MAY FIND HIS COUNSEL IN RE PARA 14 PARTICULARLY HELPFUL.  
NEWBERRY

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